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INCOME TAX LAW

I GENERAL PROVISIONS

General Provisions

Formatted: English (U.S.)

Article 1

- (1) Natural persons producing income shall be subject to paying income tax in accordance with the provisions of this Law.
- (2) Taxation of natural persons' income shall be regulated exclusively by this Law.
- (3) Tax exemptions and incentives can be introduced exclusively through this Law.
- (4) Minister of Finance is competent to issue the Rulebook for application of the Income Tax Law (hereinafter: the Rulebook).

Subject to Taxation

Article 2

- (1) Net income arising from any sources but the ones specifically excluded by this Law shall be subject to income taxation.
- (2) Net income shall represent the difference between taxpayer's total income arising from any of the sources specified in Article 3 of this Law and taxpayer's expenses resulting from producing and maintaining such income.
- (3) Expenses referred to in paragraph 2 of this Article shall be deducted for each type of revenue separately.

Income Subject to Taxation

Article 3

- (1) The natural persons' income tax shall be accrued and paid on the following revenues:
 - a. personal wages;
 - b. income arising from independent business activity;
 - c. income arising from copyright, rights related to copyright, and rights of industrial property;
 - d. capital income;
 - e. capital gains,
 - f. Income from gambling and other games of fortune, and
 - g. other personal income as defined in the law.
- (2) Income specified in Paragraph (1) of this Article shall be taxed regardless of whether they were produced in money, barter arrangements, by rendering services or in some other manner.

Tax Rate

Article 4

1. There is no tax applied to annual income amounting to less than 3,600 KM.
2. The tax rate on amounts between 3,600 KM and 20,000 KM is 10%.
3. The tax rate on amounts above 20,000 KM is 15%
4. The combination of paragraphs 1, 2, and 3 shall be the total tax.

II TAXPAYER

Taxpayer

Article 5

(1) The taxpayer subject to paying the tax in accordance with the provisions of this Law is any natural person (hereinafter: the Taxpayer) receiving income from dependent or independent work, from capital or capital gains, from games of fortune, or income from any other source, as described in this law.

(2) The taxpayer subject to paying income tax shall be a resident of the Republic of Srpska (hereinafter: the Resident), for income produced in the Republic of Srpska, other entity, Brcko District or other country.

(3) A resident, according to this Law, is a natural person:

- a. residing in Republic of Srpska;
- b. residing in Republic of Srpska continuously, or with certain interruptions, for 183 days or more during the period of 12 month period, which begins or ends during the relevant tax year.

(4) The taxpayer subject to paying income tax is also a non-resident of the Republic of Srpska (hereinafter: the Non-Resident), for income realized in the Republic of Srpska.

(5) Non-resident, in the sense of this Law, is any natural person residing on the territory of other entity, district, or state.

III TAX BASE

Tax Base

Article 6

(1) The base for tax calculation is any net income referred to in the Article 3 of this Law, and is separately established for each type of income.

IV TAX EXEMPTIONS

Income exempted from taxation

Article 7

(1) The following wage-related incomes are not subject to taxation:

- a. severance wage in case of retirement,
- b. lay-off pay,
- c. compensation deriving from the health insurance, except salaries,
- d. compensation for funeral costs, assistance for losses occurring as a consequence of natural disasters and assistance based on injuries and illness and paid by employer for employee or family member in an amount not exceeding amount established by special regulations,
- e. accommodation provided by employer for an employee at location of activity performance when use of accommodation is required for employee in performance of working duties,
- f. accommodation and payment of accommodation costs provided for public officials, employed in diplomat and consular offices abroad, employees of state defense, public order and national security in accordance with regulations,
- g. compensations for transport to and from work paid and not exceeding amount prescribed by special regulations,
- h. compensation of travel expenses and per diems for business travel purposes or temporary performance of business activity, with an amount not exceeding the one prescribed by special regulations,
- i. compensations for recognizing costs of relocation with purpose of changing location of employment, with an amount not exceeding the one prescribed by special regulations,
- j. gifts provided by employer for employees' children for holidays, in amount not exceeding 30% of average salary in the Republic of Srpska for that month.

(2) The following non-wage related incomes are not subject to taxation:

- a. pensions;
- b. income based on rights deriving from regulations referring to combatants – invalids protection and civil war victims' protection;
- c. income deriving from children and maternity allowances and financial assistance for outfitting the newborns;
- d. income deriving from scholarships and grants to pupils, student and athletes in the amount of no more than 75% of the average net monthly per employed in the Republic of Srpska according to the last published data by the body in charge for statistics issues (hereinafter: average monthly net salary);
- e. unemployment compensation;
- f. income on the basis of financial support in accordance with the law;
- g. income deriving from the organized welfare or humanitarian aid;

- h. payment of the insured sums for the property insurance, except for insurance on lost profit, as well as the payment of the insured sums to the persons who are being compensated for the suffered damage, unless it has been compensated by the person causing the damage;
- i. compensation for the real material and non-material damage;
- j. compensation for another person's assistance and care and compensation for a bodily damage;
- k. income from sales of property used for personal purposes;
- l. bonuses, subsidies, and reimbursements from the Budget of Republic of Srpska, as well as VAT compensations in accordance with the Law governing value added tax, which is paid to a separate allotted account with a commercial bank to taxpayers for income deriving from agriculture and forestry.

Natural Persons Exempted From Paying the Tax

Article 8

(1) The following individuals shall be exempt from paying taxes on personal income arising from the employment with foreign diplomatic and consular offices and international organizations, i.e., arising from the employment with the representatives or employees of such offices or organizations:

1. heads of foreign diplomatic missions accredited in the Republic of Srpska, staff of foreign diplomatic missions in the Republic, as well as members of their households, unless these members are citizens or residents of BiH;
2. heads of foreign Consulates in the Republic of Srpska and consular officials authorized to carry out consular affairs, as well as members of their households, unless these members are citizens or residents of the Republic of Srpska;
3. officials of the UN and UN special agencies, technical experts of the UN and UN special agencies and officials, experts and administrative staff of other international agencies, unless they are citizens or residents of the Republic of Srpska;
4. individuals employed by the foreign diplomatic and consular offices and other international organizations including individuals specified in this Article, provided that such individuals do not have the status of citizen or resident of the Republic of Srpska;
5. the Honorary Consuls appointed from foreign countries, in regards to income paid by their respective governments.
6. natural persons in other organizations exempt pursuant to bilateral agreements entered into between Bosnia and Herzegovina and other countries, unless they are citizens or residents of BiH.

V INCOME ARISING FROM PERSONAL WAGES

Personal Wages

Article 9

(1) Personal wages subject to income tax payment are net salary and all financial and non-financial revenues, compensations and profits which the taxpayer produces on any grounds whatsoever, unless they have been exempted under this Law, or taxed otherwise.

(2) Personal wages subject to tax payment also include:

1. compensations paid for labor provided, in accordance with employer's instructions or request,
2. additional income based on compensations, assistance etc. paid by the employer to his employees exceeding prescribed amount,
3. salaries paid by a third party on behalf of the employer,
4. scholarships and grants to pupils, students and athletes, exceeding an amount representing 75% of average monthly net salary per employee in accordance with the latest published data of the Statistics Bureau of the Republic.

(3) Benefits received based on labor shall be included in taxable income as follows:

- a. use of vehicle and other assets for personal use,
- b. accommodation, food and use of other assets and services free of charge or per price lower than market price,
- c. granted interest free loans or loans per rate lower than market interest rate,
- d. settling of personal expenses by employer,
- e. cancellation or pardon of debt.

VI INCOME ARISING FROM INDEPENDENT BUSINESS ACTIVITY

Income Arising from Independent Business Activity

Article 10

(1) Income from independent activity shall be considered income realized through independent performance of economic activities, such as agriculture, forestry, or the production of any other goods or services, providing of professional and other intellectual services, as well as income from other activities.

Payment of Tax

Article 11

(1) Tax on income from independent activity shall be paid on:

- a. net income arising from independent activity, or
- b. total income arising from performance of small volume independent activity (flat rate).

Tax Base for Independent Activity

Article 12

Article 28

(1) Tax base for calculation of tax on income arising from independent activity is the net income which represents a difference between income and expenses occurring through independent performance of an activity in a tax period

(2) Tax Base shall be determined by applying the simple method of accounting (cash method)

Income

Article 13

(1) Income from independent activity shall include all incomes obtained through any source, received in cash, goods and services, realized through independent or joint performance of activity whether physical person is registered or not for performance of that activity.

(2) When income is realized in the form of property (except cash) or services, amount of income equals market value of property received or service performed.

(3) Market value for the purpose of Paragraph (2) of this article represents an amount that unrelated purchaser would pay independent unrelated seller at same time and place for same or similar goods and services under the conditions of fair competition.

Expenses

Article 14

(1) Expenses deductible from income are the costs paid during one tax period that are in full explicitly and directly related to performance of that independent activity.

(2) Additional expenses subject to deduction are, as long as they necessary for the proper conduct of the independent activity:

- a. annual fees or obligations paid to professional associations or professional chambers when related to taxpayer's business activity,
- b. costs of meals and beverages provided to the employees on employer's premises in amount not exceeding the amount determined by special regulations,
- c. income tax paid to a foreign state only when not recognized as tax credit for income tax,
- d. expenses occurring through use of car, including gasoline and car maintenance for an automobile used exclusively for performance of independent activity of a taxpayer,
- e. contributions on a salary paid for employees and owner,
- f. expenses occurring in relation with employees' education, including studying foreign languages,
- g. benefits or compensations for employees that are included into employees' salaries and not exceeding prescribed amount,
- h. taxes paid (property tax) and fees recognized in accordance with this Law,
- i. interest on credits and loans for business conduct purposes,
- j. awards to employees paid in accordance with special regulations,
- k. travel expenses in accordance with special regulations,
- l. costs of repair, maintenance of principal assets not exceeding 5% of asset value increase (costs prior to depreciation). When the amount of an increase exceeds 5% of adjusted value, this amount shall be added to adjusted value for depreciation purpose,
- m. advertising,,

- n. sponsorship and donations for humanitarian, cultural, educational, or sports purposes, and representation expenses not exceeding 1% of gross income, and
 - o. depreciation of fixed assets, subject to Article ____.
- (4) Expenses not subject to deduction are:
- a. Income taxes paid in Republic of Srpska,
 - b. Monetary fines, interest and penalties due because of the violation of any law,
 - c. Expenses not occurring related to income realization
 - d. Expenses registered in business books and records and not supported by other documents,
 - e. Insurance premiums paid by an employer for his employee except when those premiums are included in employee's salary,
 - f. Expenses occurring related to business activity of related persons in such volume that exceeds market value of goods or services on the market,
 - g. Loss from sales or transfer of any property between related persons,
 - h. Donations to political parties,

Depreciation of Fixed Assets used in Independent Activity

Article 15

- (1) Depreciation shall be recognized as expense for fixed assets subject to depreciation and in use.
- (2) Depreciation shall be recognized only for assets used in the Republic of Srpska.
- (3) Tangible and Intangible assets purchased or created for less than 1.000 KM used for the purpose of performance of business activity of a physical person in the Republic of Srpska, can be deducted in total, in tax period when such good was purchased or created.
- (4) When financial leasing is used, the following rules shall apply:
- 1) lessee shall be treated as leased asset owner and, based on this, has right to recognition of depreciation on leased asset,
 - 2) payments of lessee to lessor shall be separated on principal and interest in accordance with leasing principles used by the banks and other authorized credit institutions,
 - 3) interest payable under financial lease shall be included in tax base of lessor and deducted to lessee and is a subject to limitations of this business.
- (5) When used for operational leases:
- a. lessor shall be treated as leased asset owner and holds the right to deduction for depreciation related to leased asset,
 - b. lease payments paid under operational lease shall be included in taxable income of lessor and deducted to lessee.

Joint Performance of Independent Activity

Article 16

- (1) When several persons realize income through joint independent activities, each shall pay the tax for his/her share of jointly realized income.
- (2) Income realized by a physical person through joint performance of independent activity from Article 25 of this Law shall be assessed as single income divided between every participant in this

income in proportion determined by mutual agreement, and when not determined by an agreement, the income shall be divided into equal portions.

(3) To the portion of income or loss belonging to a person based on jointly realized income determined on basis of paragraph 2 of this article, the incomes realized by each of them for his/her work and other compensations shall be added to them after business expenses are applied against gross jointly realized income. From the portion of income or loss of each person determined in accordance with paragraph 2 of this article, expenses occurring to individual person shall be deducted for those expenses that did not influence lowering of the income realized from joint activity.

(4) Provisions of paragraphs 1. and 2. of this article pertain also to the cases when several persons jointly realize income from property and property rights.

(5) Joint business income determined based on paragraph 2 of this article shall include share in profit of business association realized by participants in joint income when these shares are not taxed as business association profit.

(6) Persons realizing joint income from paragraphs 1.to 4. of this article shall be obliged to appoint a person carrying joint activity that shall be responsible for keeping business books and records, payment of tax and other obligations, filing declarations and performance of other prescribed obligations arising from joint activity and joint property and property rights. Non-resident as co-entrepreneur can not be appointed as a person carrying joint activity. When person carrying joint activity is not appointed, the authorized tax body shall appoint him/her.

(7) Person carrying joint activity from paragraph 6 of this article shall be obliged upon termination of tax period, in legally prescribed period, to file tax return on assessed income from joint activity to authorized tax body in accordance with his/her residence or usual sojourn.

Loss Arising From Independent Activity

Article 17

(1) When expenses being subject to deduction at any tax period exceed incomes for that tax period, the difference, i.e. loss may be transferred onto five consecutive tax periods and used for lowering the tax base in those tax periods.

(2) In case of foreign persons or persons from other parts of BiH performing business activity through permanent places of business in the Republic of Srpska, paragraph 1 shall be applied pertaining only to taxable income and expenses that are subject to deduction and that are connected to that permanent place of business.

(3) When physical person from the Republic of Srpska has permanent place of business abroad that causes losses, those losses cannot be recognized as deduction when determining income of physical person in the Republic of Srpska.

Small Volume Independent Activity (Small Entrepreneur)

Article 18

(1) Small entrepreneur, as defined in the Article 36 of this Law, can choose to pay the tax on small entrepreneur's income in accordance with the provisions of this Law.

Definition of a Small Entrepreneur

Article 19

(1) Small entrepreneur, in the sense of this Law, is a physical person satisfying each of the following conditions during the full tax year:

- a. such physical person performs independent activity, except financial services and organizing of games of chance;
- b. the number of employees of a small entrepreneur does not exceed 3 (three);
- c. the total annual revenue of small entrepreneur, based on performance of the respective activity, does not exceed the amount of 50.000,00 KM.

(2) Physical person realizing income through joint performance of independent activity cannot obtain the status of small entrepreneur.

Small Entrepreneur's Tax (Flat Rate)

Article 20

(1) Annual tax for small entrepreneur shall be calculated at the rate of 5% to total realized income of a small entrepreneur.

(2) Annual tax of small entrepreneur can not be less than 600,00 KM.

Monthly Payment of Tax

Article 21

(1) Small entrepreneur shall pay the tax on total monthly income until the 10th in the month for the previous month, and the monthly amount of tax can not be less than 50,00 KM.

Election of Small Entrepreneur Status

Article 22

(1) Taxpayer performing independent activity, wanting to be taxed as a small entrepreneur, is obliged to submit the information to the authorized tax body with proof of satisfying the conditions from Article 36 of this Law, until January 31 of the year to which the small entrepreneur status shall refer.

(2) In case the physical person, for the first time in the calendar year, starts performing the independent activity and chooses to be taxed as a small entrepreneur in that year, the respective physical person is obliged to submit the request to the authorize tax body, within 30 days from the day of start of independent activity performance. In the request, the physical person is obliged to state all the information on satisfying the conditions from Article 36 of this Law.

Repeal of Small Entrepreneur Status

Article 23

(1) In case the small entrepreneur fails to satisfy the conditions from Article 36 of this Law during any part of the calendar year, or forfeits the option to be taxed as small entrepreneur, the status of small entrepreneur shall be repealed.

(2) In the repeal year, the small entrepreneur shall file the annual tax declaration and pay the tax in accordance with the Article 27, Paragraph (1), Item 1, of this Law, deducting form income tax the amount which small entrepreneur has paid during the year of repeal.

(3) In case the repeal of small entrepreneur status has occurred in accordance with the Paragraph (1) of this Article, the small entrepreneur can not reclaim the small entrepreneur status for the period of three years since the repeal.

Books and Records

Article 24

(1) Taxpayer performing independent activity from Article 25 of this Law is obliged to assess income based on information from prescribed business books and records, except those where income tax is assessed in lump sum.

(2) Business books and records from paragraph 1 of this article are books of incomes and expenditures, inventory list of long-life property and records on receivables and payables.

(3) Small entrepreneur keeps only the book of turnover.

(4) Taxpayer shall be obliged in income and expense book or other records to ensure information on realized daily turnover.

(5) Taxpayer shall be obliged to issue an invoice for each sale or service performed.

(6) Business books and records shall be kept in accordance with cash method of accounting. Cash method of accounting means that income shall be considered when actually received by the taxpayer at the moment of receipt or putting of income at his disposal or receipt to the benefit of the taxpayer. Expenses occur when paid.

(7) The Minister of Finance shall prescribe in details the content and manner of keeping the books and records by a specific rulebook.

Opening an Account

Article 25

(1) Taxpayer for the tax on independent performance of activity is obliged to open an account, with organizations competent for payment transaction operations, through which the collection of incomes and payment of expenditures shall be performed.

VII INCOME FROM COPYRIGHTS, RIGHTS RELATED TO COPYRIGHTS, AND RIGHTS OF INDUSTRIAL PROPERTY AND PATENTS

Tax Base for Income for Copyrights and Patents

Article 26

(1) The tax base for calculation of tax on income arising from copyrights, rights related to copyrights and rights of industrial property shall be the net income obtained from rights net of expenses, which the taxpayer had as regards gaining and maintaining the income, are deducted from the total income.

VIII CAPITAL INCOME

Capital Income

Article 27

(1) Capital income, in line with this Law, shall include:

- a. interest and other income arising from loans, savings and other deposits ("á vista" or deposited), arising from bonds and other securities;
- b. income realized by leasing or subleasing real estate and movables.

(2) The respective portion of price difference, which, in accordance with this Law, classifies as capital gain, shall not be considered income arising from interest from bonds and other related securities.

(3) Interest arising from funds put at disposal of a limited liability company i.e., business partnership (shop), either by the member of such business partnership, limited or general partner of limited liability company, or the founder of business partnership shop, shall also be considered capital income. The latter should be referred to as capital income at least in regards to the amount of interest made from fixed term savings deposits during the same period.

(4) In the sense of this Law, interest referred to in Paragraph (3) of this Article shall not be considered capital income if operating balance sheet of the company, i.e. partnership shop as referred to in Paragraph (3) of this Article, proves that the respective funds were put at disposal of the company, i.e. business partnership shop in order to enable their performance.

Income from Leasing

Article 28

(1) The income that the taxpayer earns by leasing or subleasing the property and the value of all realized liabilities and services that the lessee of real estate (land, housing and business buildings, parts of these buildings, apartments, parts of apartments, business premises, garages, etc.), i.e. movables (equipment, transport means and other movables) committed to shall be

considered the income arising from real estate and movables referred to in Article ###, paragraph (1) item 4.

Tax Base

Article 29

(1) The tax base on income from Article ###, Paragraph (1), Item 3 of this Law shall be a net income earned by leasing real estate, i.e. movables, when expenses in the amount of 20% are deducted from the gross income

(2) To the taxpayer who requires and provides documentation for this, the tax body shall recognize actual expenses of depreciation, financing, investment and current maintenance of the property and other expenses, which the lessor had as regards the property granted for a lease, instead of the standardized expenses.

(3) If the taxpayer is a lessee subleasing the real estate, the rent being paid by the lessor shall be deducted from the rent income.

Advance Receipt of Rental Income

Article 30

(1) Net income from lease received in advance for the period exceeding one year, during tax base establishing, is divided at the taxpayer's request to the number of equal shares identical to the number of years for which the rent is paid, but not exceeding five years.

(2) In the case of Paragraph 1 of the Article the proportional share of net income is taxed each year.

IX CAPITAL GAINS AND LOSSES

Sale of Business Property

Article 31

(1) Taxpayer's income arising from sale, i.e. arising from other transfer with compensation (hereinafter: sale), shall be considered capital gain.

- a. actual real estate rights;
- b. permanent rights of use and building on the city construction land;
- c. intellectual property rights;
- d. sale of property that was used in independent activity

(2) Positive difference between the sales price of rights referred to in paragraph 1 of this Article and their acquisition price shall be considered capital gain.

(3) The negative difference referred to in Paragraph 2 of this Article shall be considered capital loss.

Sales Price

Article 32

(1) For the purpose of assessment of capital gain and in accordance with this Law, the sales price shall be considered to be the agreed price or the market price determined by the competent tax authority, if it is established that the agreed price is lower than the market price.

(2) The price exempted from taxes payable on transfer of absolute rights shall be considered the agreed, i.e. the market price referred to in Paragraph 1 of this Law.

(3) In case of transfer of rights when it has been exchanged for another right, the sales price shall be considered the market price of the respective right subject to exchange.

Acquisition Price of Real Estate

Article 33

(1) For the purpose of assessment of capital gain, in the sense of this Law, the price paid by the taxpayer for obtaining the respective right referred to in Article 43 of this Law, i.e. the price determined by the respective tax authority pursuant to this Law, shall be considered the acquisition price of the latter.

(2) When selling real estate that the taxpayer built him/herself, the market price of real estate in the year when the construction was completed shall be considered the acquisition price referred to in paragraph 1 of this Article.

(3) When selling real estate under construction, the total of construction costs incurred by the taxpayer prior to the day of sale shall be considered the acquisition price referred to in paragraph 1 of this Article.

Gifts and Inheritance

Article 34

When the respective right has been given as a gift or inherited by the taxpayer, the market price of the gift or inheritance in the year when the right was originally acquired shall be considered the acquisition price referred to in Article 45, paragraph 1.

Capital Loss

Article 35

Capital loss arising from the sale of one right can be compensated by capital gain arising from the sale of the other right in the same year. **The net capital loss is to be deducted from income to determine the tax base of the taxpayer.**

Sale of Assets held for Investment

Article 36

(1) Capital assets are assets obtained exclusively for investment purposes.

(2) Capital assets shall not include:

- a. inventory
- b. property used for sale to the clients and related to business activity of a taxpayer
- c. business property that is depreciated,
- d. buildings used by a taxpayer for his/her business activity,
- e. copyrights and
- f. financial instruments testifying on obligation arising from business activity of a taxpayer.

(3) Amount of capital gain or loss shall be the difference between selling price and costs of an asset. Selling price shall be the price the capital asset is sold for. Cost of asset represents an amount paid for the asset by a taxpayer.

(4) 50 % of gain from sales of capital assets when assets were in possession for a period exceeding 12 months.

Sales between Related Persons

Article 37

(1) Transfer price shall pertain to a price occurring related to transactions of funds or creating of obligations between related persons, and unrelated persons in case the transaction is in the breach of the standard market price.

(2) In a case of transactions from paragraph 1 of this article, authorized tax administration may increase amount of income or expense in order to reflect market value of goods and services provided in transaction.

(3) Minister shall through regulatory act prescribe manner of determining transaction market value.

(4) Market value represents amount paid by independent, unrelated purchaser or service beneficiary to unrelated seller in the same time and place for the same or similar goods and services under fair competition conditions.

(5) Related persons shall pertain to persons who have special relationship that can materially influence economic results of transaction between them. Special relations include:

- a. persons who are business partners,
- b. persons in relation employer – employee,
- c. persons who are member of the same and broad family including spouses, ancestors and descendants, sisters and brothers, nieces, spouse's brother, sister or parent's and spouse parents' brother or sister.

X TAX DECLARATIONS AND PAYMENT OF TAX

Advance Tax

Article 38

(1) Advance tax on income specified in Article 3 of this Law is paid as follows:

- a. at the moment of payment of each individual income (hereinafter: the Withholding Tax), and
- b. on the basis of tax declaration.

(2) The amount of tax paid under the Paragraph (1) of this Article shall be deducted as a tax credit from established annual income tax amount.

Annual Tax

Article 39

(1) Annual tax on natural person's income shall be paid in accordance with the annual tax declaration of a natural person for income realized in the calendar year, in accordance with this Law.

Tax Declaration Filing

Article 40

- 1) Annual tax declarations shall incorporate all income earned or received in the tax year and report all tax that has been withheld from the taxpayer during the course of the tax year. Taxpayer shall be obliged to file annual tax return to Tax Administration when realizing income from several sources on basis of dependent activity simultaneously or income realized directly from abroad (without participation of resident employer) or when realizing income that obligation of filing annual tax declaration is prescribed for in accordance with this Law as well as in the case when Tax Administration requests later from a taxpayer, to pay the tax on dependant activity basis.
- 2) Taxpayer that realizes income in the sense of this Law is obliged to file the tax declaration to a competent tax authority, unless otherwise specified under this Law, no later than March 31 of the current year from the previous year.
- 3) Taxpayers from whom too much tax has been withheld is obliged to file for a tax refund by filing the annual tax declaration.
- 4) Employee for whom employer pays withholding tax shall not be obliged to file annual tax return when not realizing income from other sources and when not seeking a refund of any overpayment of taxes.

Form and Content of Tax Declarations

Article 41

(1) The form and the contents of tax declaration shall be prescribed by the Rulebook on application of this Law.

Payment of Tax

Article 42

- (1) On the basis of tax declaration the tax shall be paid for the following incomes:
- a. income arising from independent activity;
 - b. capital gains;

- c. capital income for which the tax at source has not been paid,
 - d. when insufficient tax on wages has been withheld, and
- (2) For each individual realized net income, the tax shall be withheld at the moment of payment of: personal wages;
- a. income from copyrights, rights related to copyright, and rights of industrial property;
 - b. capital income, and
 - c. winnings from games of fortune.

Withholding Tax

Article 43

- (1) The tax paid in the manner referred to in Article ##, Paragraph (2) of this Law shall constitute the withholding tax.
- (2) As regards the taxation at source, the payer of such income shall accrue, withhold and deposit the tax in appropriate accounts at the moment of payment of income, for every single taxpayer and every single income paid from Article 73, Paragraph (2) of this Law.
- (3) The payer referred to in paragraph (2) of this Article shall be obliged to issue the taxpayer an account on net income, expenditures, deductions and the amount of paid tax with each payment as well as at the end of the year. Natural person making a payment to another natural person shall not be considered payer in the sense of this Law.
- (4) The payer shall be obliged to deliver the data from Paragraph (3) of this Article, in the information tax declaration, to the competent tax body no later than March 31 of the current year for the previous year.

Deadline for Payment of Tax

Article 44

- (1) Taxpayers for incomes from Article ##, Paragraph (1), Item 1 through 3, of this law shall pay the tax no later than the 10th of the current month for the previous month.
- (2) Tax on income arising from agriculture and forestry shall be paid quarterly, and is due for payment at the mid of each quarter.

Location of Payment of Tax

Article 45

- (1) Income tax shall be paid according to the location of residence of taxpayer for income arising from:
- a. personal wages,
 - b. copyrights, rights pertaining to copyrights, and rights of industrial property,

- c. capital income obtained from lease and sublease of movable property,
- d. capital gain from movable property, and
- e. winnings from games of fortune.

(2) Tax on income arising from independent activity shall be paid according to the place of registration of activity. In case the activity is performed in more than one location, the taxpayer is obliged to determine one of those locations as the main place of business, for the purpose of executing tax obligations.

(3) Tax on capital income realized from lease or sublease of immovable property, capital gains from immovable property and incomes from agriculture and forestry shall be paid according to the location of the immovable property.

(4) Non-resident shall pay income tax according to the source location of income.

Income from Foreign Sources

Article 46

(1) The taxpayer who earns personal income in other territories of BiH or in a foreign country, as well as the taxpayer whose personal earnings arise from a diplomatic and consular mission of a foreign country, i.e. an international organization or a representative or an official of such a mission, i.e., an organization that has diplomatic immunity, shall accrue and pay the tax at source him/herself at the rate of 10% within seven days from the date of payment of such earnings, if this tax is not accrued and paid by the payer, and shall file the annual tax declaration.

Tax Credit

Article 47

(1) When physical person from the Republic of Srpska realizes income in other territories of BiH or a foreign country and the income realized is taxed in both, the Republic of Srpska and the other territories of BiH or foreign country, in that case, income tax paid in other territories of BiH or foreign country shall be deducted from the income tax in the Republic of Srpska.

(2) Tax deduction of income tax in the Republic of Srpska for taxes paid in other territories of BiH or in a foreign country in a tax period shall not exceed amount of income tax calculated by applying income tax rate from the Republic of Srpska for a taxpayer for that tax period.

(3) Taxpayer of income tax in the Republic of Srpska may deduct income tax paid in the other territories of BiH or foreign country exclusively based on valid documentation verified by authorized BiH or foreign state bodies.

Adequate Application of Law

Article 48

(1) Assessment and collection of the income tax shall be conducted in the manner and in accordance with the procedures prescribed by the Law on Tax Administration.

XI PENALTY PROVISIONS

Penalty Provision

Article 49

(1) The breach of provisions of this Law that are characterized as offences and criminal acts, as well as the responsibilities and sanctions for offences and criminal acts, shall be regulated by the Law on Tax Administration.

XV TRANSITIONAL AND FINAL PROVISIONS

Transitional Provisions

Article 50

(1) The Law on Citizens' Income Tax ("Official Gazette of Republic of Srpska" no. 51/01, 68/01, and 65/03), shall cease to be effective as of the day of this Law coming into

(2) The procedure of determination and collection of income tax for the year 2005 shall be finalized according to the provisions of the Law on Citizens' Income Tax ("Official Gazette of Republic of Srpska" no. 51/01, 68/01, and 65/03).

(3) Provisions of this Law pertaining to taxation of winnings from games of chance shall be applied as of the day the Law on Taxes on Games of Fortune and Entertaining Games ("Official Gazette of Republic of Srpska", no. 5/99, 52/01, and 25/02), ceases to be effective.

Deadline for Making the Rulebook

Article 51

(1) Minister of Finance is obliged to issue the Rulebook for application of this Law within 60 days from the day of this Law coming into effect.

Coming into Effect and Application

Article 52

(1) This Law shall come into effect as of the eight day of its publishing in the "Official Gazette of Republic of Srpska", and shall be applied as of January 01, 2006.

Banja Luka, November 07, 2005

WORKING GROUP

WORKING GROUP

- WORKING VERSION OF THE LAW

THE LAW ON INCOME TAX

November 2005